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Ministry of
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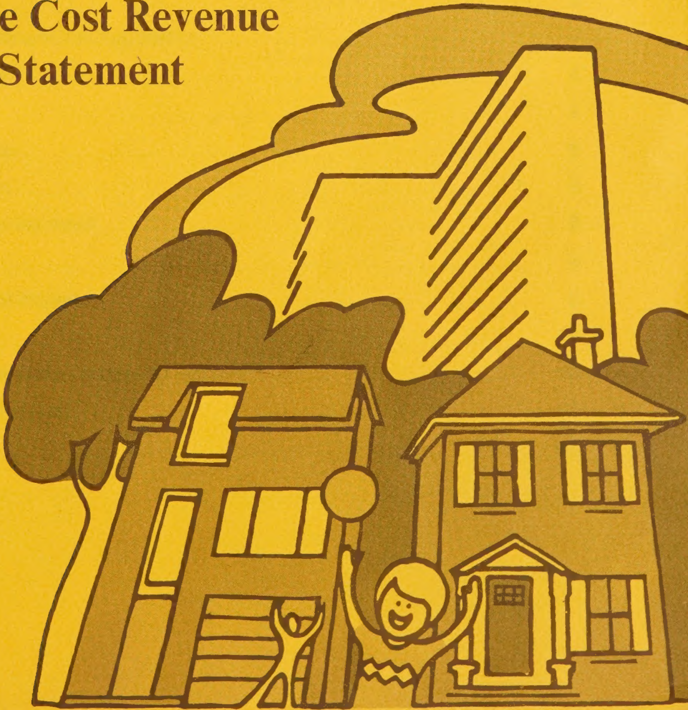
Relations

RENT REVIEW

Guide to The Cost Revenue Statement



REVISED OCTOBER 1977

GUIDE TO THE COST REVENUE STATEMENT
MADE IN SUPPORT OF
RENT REVIEW APPLICATIONS

> The procedures, terms and definitions used in this guide are not meant to supersede the Residential Premises Rent Review Act, 1975, as amended, or the regulations made under the Act, and, in the event of conflicts, the Act and the regulations will take precedence.

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INTRODUCTION

Under the rent review legislation, rents for residential premises ("units") to which the Act applies may be increased up to the amount set by statute, with provision for requests for rent review by landlords and tenants to set rent levels on specific units higher or lower, as the case may be.

Rent review officers are empowered by the Act and the regulations to consider information relating to applications for rent increases or justification of rent increases. Such information, which may be requested by rent review officers, may include, without limitation, the following:

i) rent increases from January 1, 1974 to July 29, 1975 for all units under review;

ii) the discontinuance of a service, privilege, accommodation or thing, resulting in a reduction of the tenant's use and enjoyment of the unit;

iii) the landlord's operating costs and capital expenses that he has experienced, or anticipates on reasonable grounds that he will experience;

iv) whether or not the increase in rent sought by the landlord is necessary in order to prevent the landlord sustaining a financial loss in the operation of the building.

Rent review officers are also directed by the Act to adopt the most expeditious method of determining the questions arising with regard to applications for rent review.

In determining the questions arising before him on an application to review a rent, the rent review officer without limiting the generality of the foregoing, may consider the following matters:

i) the type of residential premises;

ii) the number, type and cost of every service, privilege, accommodation or thing provided along with or as part of the tenancy that is included in the rent as defined in the Act;

iii) the separation of areas used for residential, commercial and parking use, where applicable;

iv) the annual basic rent revenue, the market rent of all units including the estimated rent of vacant units and any unit occupied by the landlord and his staff, and the total net unit basic rent revenue;

v) all residential operating costs;

vi) a separate calculation and listing of all separate charges for services as levied in January 1974, in July 1975, proposed charges, and any in status of such charges;

vii) a separate listing of all units to which the same services are supplied;

viii) all residential capital expenditures;

ix) a separate listing of all items of renovation or improvement, or both, where applicable, for each of the buildings and projects affected by rent review;

x) full particulars of all residential financing;

xi) a breakdown of any of the foregoing information as to year one, year two and the projected year.

Accordingly, landlords are required to present financial data necessary for rent review officers to render decisions on applications. It is for that purpose the Cost Revenue Statement has been developed and, to facilitate its use, specific instructions for the completion and interpretation of each information "Item" and "Schedule" contained in the Statement are provided in this Guide. The rent review officer, however, may not require the completion of all the Items or Schedules in respect of any particular application.

Tenants who are familiar with the concepts outlined in this Guide will have a better understanding of the rent review hearing and the resulting rent review officer's order.

The rent review process to be followed by rent review officers is based essentially on the cost pass-through principle. The Statement which rent review officers will examine is designed to determine the total increased operating costs and capital expenses that the landlord has experienced, or anticipates on reasonable grounds that he will experience in the operation of the entire building or project containing the units subject to rent review.

These total increases, for a building or project, will then be translated into a specific percentage increase to determine the amount of increase applicable to the units under review. In addition, rent review officers will determine whether or not a landlord has discontinued a service, privilege, accommodation, or thing. For example, if the officer decides a discontinuance has occurred which results in a reduction in the tenant's use and enjoyment of the premises, the value of the discontinued service, etc., will be taken into account.

Rent review officers will also review situations in which a landlord is sustaining, or will sustain, a financial loss in the operation of the building or project in which the premises are situated, and the officer will consider whether or not an increase in rent is justified in order to prevent such a loss.

In considering the matters referred to in the previous paragraphs and any other information and matters necessary to establish a rent, the rent review officer shall consider the Act, the regulations under the Act and the guidelines and principles set out in this Guide to the Cost Revenue Statement.

UNDERSTANDING AND COMPLETING THE COST REVENUE STATEMENT

If a landlord has a number of expiring tenancy agreements with different durations (i.e. some of one year's duration, some of two years' duration), the landlord should group the tenancy agreements on the basis of duration, and complete a separate Statement for each group.

In cases where the ownership changes, the new owner should obtain sufficient past revenue and cost figures pertaining to the building purchased, if he is planning to make application for rent review.

The Item and Section numbers which follow correspond to the numbers on the various Items and Schedules which comprise the Statement. When this Statement is requested, Item numbers 1 through 7 and Schedule A should be completed in every case. Items 8, 9 and Schedule C should be completed where appropriate.

ITEM 1. Name and Full Address of Building or Project and Date of Completion and Acquisition

Give the name and full address of each building to which the financial data presented in the Statement applies. Where applicable, give the name of the project in which each building is situated. Give the dates of completion and acquisition of each building listed.

When requested by a rent review officer, a landlord must submit a Statement either for an individual building in a project, or a group of buildings in a project, whichever is most convenient to the landlord.

ITEM 2. Name and Mailing Address of Landlord and Agent

Give the name, mailing address and telephone number of each owner of the building or project and of the agent of the landlord, where applicable.

ITEM 3. Type(s) of Building(s) in Project Being Analyzed.

Check the appropriate box(es) to indicate the type(s) of building(s) covered by the Statement. Enter the number of residential units contained within each building type (including any occupied by the landlord and staff) and the number of buildings of each type. Give also the total number of residential units in all the buildings, and the total number of buildings.

Where rents of mobile home sites are under review, give only the total number of sites rented.

ITEM 4. If Mixed-Use Building or Project, Give Gross Areas. Complete only where Commercial Areas Exist

Give, for both building and parking purposes, the total area of all usable built-up areas as determined by exterior dimensions, allocated between residential and commercial uses.

Commercial area is defined as all the area for which rent is or can be obtained but which has no direct relationship to residential occupancy, e.g., a store, an office, an apartment rented as office space, a commercial recreation club, or a public garage.

Residential area should include all recreation facilities available to tenants under the terms of tenancy agreement and area used for the management, maintenance and supervision of the residential area.

Where a recreational area is operated on a commercial basis and where tenants and members of the general public have equal access to the facilities, include this area as a commercial area.

ITEM 5. Annual Accounting Periods Relating to this Application

(a) Annual Accounting Periods

Rent review officers will request that the landlord's financial data be presented according to annual accounting periods designated as Year 1, Year 2 and Projected Year as described below. This is intended to organize past and projected financial data so that rent review officers can determine rent increases on a uniform basis.

An annual accounting period is normally comprised of 12 consecutive months which may correspond to the landlord's fiscal year or such other appropriate period.

Unless the landlord can show good reason why he cannot comply, second or subsequent submissions for the same units should cover the identical annual accounting period as did the first submission.

Year 2 in the Cost Revenue Statement means the most recently completed annual accounting period.

On a second or subsequent application for units previously reviewed, the rent review officer may accept Year 2 costs based on a minimum of 7 months actual costs with the remaining months projected. The combined totals (actual and projected) are to be shown in the proper column for Year 2. Whenever Year 2 costs are shown on this basis, the number of months actual and the months projected should be indicated. The landlord should also be prepared to provide the rent review officer with the amount of the actual costs used in each cost category.

Projected Year means the annual accounting period for the 12 months commencing immediately after Year 2.

Year 1 can vary according to the period of the tenancy:

i) For expiring tenancy agreements that were in effect up to one year, Year 1 means the annual accounting period immediately preceding Year 2.

   For example, assume a landlord is reporting Year 2 as the 12 months completed to September 30, 1976, and that a proposed rent increase for an expiring one-year tenancy agreement is under review. Year 1 will be the 12 months ending September 30, 1975. Projected Year will be the 12 months ending September 30, 1977.

ii) For expiring tenancy agreements that were longer than one year's duration, Year 1 would be as many years back as the duration of the expiring tenancy agreement.

   For example, assume a landlord is reporting Year 2 as the 12 months completed to September 30, 1976, and that the rent increase for an expiring two-year tenancy agreement is under review. The landlord would report Year 1 as the 12 months ended September 30, 1974. Projected Year will be the 12 months ending September 30, 1977.

Where it is impossible to report actual results for a complete annual accounting period (Year 1 and/or Year 2), for example, where a building was newly-constructed, the landlord should state clearly the length of the accounting period(s) that he is able to report in Year 1 and/or Year 2. Projected Year will continue to be the full 12 months commencing immediately after Year 2.

For example, if the building was purchased or completed on September 30, 1975, the landlord could report as follows:

Year 1 may contain no data; Year 2 would be the 12 months ended September 30, 1976 and Projected Year would be the 12 months ending September 30, 1977.

(b) Frequency of Cost Revenue Statement Submissions

The landlord should also state the frequency with which a revised Statement will be submitted for the purpose of updating financial data. Rent review officers will not normally permit a change in the financial updating cycle

identified by the landlord in the initial Statement submitted.

A landlord need submit only one statement for a 12-month period, but may at his option update the projected financial data by submitting new Statements as frequently as once every three months. A maximum of four Statements will be accepted during a 12-month period.

Landlords are required to submit updated financial data only in respect of current applications for rent review.

When a landlord seeks review of the same units a second, or subsequent time the Statement may include up to 5 months projected data in Year 2 but must cover an identical annual accounting period.

ITEM 6. Annual Unit Basic Rent Revenue

Item 6 requests certain rent revenue data for the building or project for Year 2 only.

"Unit basic rent" means the rent for the occupancy of the unit regardless of whether the rent relates to a service internal or external to the unit, but does not include any separate charges identified on Schedule A (Section 10, below) that are payable to the landlord for a service, privilege, accommodation or thing.

The amount that will appear on line (d) is a basic part of the rental increase determination that is described in Section 12 of this Guide. Other revenue, lines (e) and (f), may be considered in either the rental increase determination in Section 12 or the increase in separately charged service determination in Section 14.

Line (a)

Line (a) requests the total potential unit basic rent revenue for Year 2, assuming all units were rented during Year 2, but excluding the market rent of any units occupied by the landlord or staff.

The amount entered on line (a) should include the unit basic rent of any units vacant at any time during Year 2. The unit basic rent assigned to such vacant units should be calculated as either:

i) the existing unit basic rent of an equivalent unit in the same building, or

ii) the previous unit basic rent of the vacant unit.

The following should be reflected in the total potential unit basic rent shown on line (a) as either:

i) the actual unit basic rent level as agreed by the landlord and tenant within the guideline limit provided in the legislation, or as ordered by the rent review officer or the Residential Premises Rent Review Board (Appeal Board), or

ii) the interim unit basic rent increase permissible under the legislation pending the decision of the rent review officer or the Board.

Where a tenancy agreement provided for escalation in the amount of unit basic rent during the term of the agreement, the revenue reported on line (a) should reflect the rent charged in Year 2 inclusive of Year 2 escalation revenues.

Line (b)

Enter on line (b) the market rent of any unit(s) occupied by the landlord and/or staff. This rent must be calculated on the same basis as if the unit were rented to a tenant.

Line (c)

Enter on line (c) the amount calculated in respect of vacancies which was included in the total on line (a).

Line (d)

The total net unit basic rent revenue on line (d) is derived by adding the amounts on lines (a) and (b) and subtracting the amount on line (c). This net revenue amount represents the net earning capacity of the building or project during Year 2, and provides the base for calculating the percentage increase in rent allowable in respect of increased operating costs and capital expenses (see Section 12).

Line (e)

Enter on line (e) the parking revenue for Year 2 if parking charges have been charged separately. Check the appropriate box indicating whether the costs are, or are not included in the operating costs in Item 7.

Line (f)

Enter on line (f) any revenues not included in the total net unit basic rent revenue for services listed in Schedule 'A'. Indicate whether the costs are included or not included in Item 7.

If there is more than one sundry revenue service attach a schedule detailing separately the revenues for such services and indicate if the costs relating to each service are included in Item 7.

ITEM 7. Residential Operating Costs

Rent review officers will normally request that Item 7 be completed to show actual annual residential operating expenses of the building or project for Year 1 and Year 2, and the anticipated costs for Projected Year. This detail is necessary to determine the increase in operating costs incurred in the operation of the building that may justifiably be passed through as a rent increase.

Operating costs should include all the normal residential costs of operating the building or project, including the costs of all residential services identified on Schedule A, where the charges for these services are included in the unit basic rent.

Operating costs of services, the revenue of which is not included in the total net basic rent revenue, should be provided on Schedule A and excluded from Item 7. Where such services cannot be separated, these should be included in Item 7 and the related revenue included in Item 6.

The cost descriptions printed on Item 7 are intended to be neither an exhaustive nor a restrictive list. Landlords may present their residential operating costs in as much detail as possible. It is likely that a more detailed presentation will assist the rent review officer in analyzing the cost increases.

Lines (l) to (y) may be used for additional cost descriptions, including, without limitation, such items as:

- Ontario capital tax
- professional fees
- cleaning and janitorial

Management and Administrative Overhead – Line (h)

This item should be computed as being not more than 5 per cent of total net unit basic rent revenue as indicated on line (d) of Item 6. This means of providing for overhead is in lieu of receipted expenses.

If the landlord includes 5% of the total net unit basic rent revenue in line (h) then any other charge pertaining to management expenses i.e. office staff, salaries, rental commissions, telephone, stationery, etc. is disallowed. If line (h) is less than 5% of the total net unit basic rent revenue then other management costs claimed may be accepted up to a maximum of 5%.

Professional expenses, such as legal, audit, architectural or engineering fees, should be recorded as a separate line in Item 7 and not as part of line (h). Such fees, however, will only be considered if reasonable and substantiated.

Many landlords pay a property management company to manage their property and the actual costs may be more than 5% of Item 6 line (d). Such costs may be allowed providing the management company operates at arm's length and the costs are reasonable.

If management and administrative expenses exceed 5% of total net unit basic rent revenue, Item 6 line (d), and if they are reasonable and verifiable, they should be itemized in detail elsewhere in the operating expenses and no entry should appear on line (h).

Interest and Bank Charges – Line (i)

The interest costs that may be included on line (i) should be only those interest costs clearly relating to funds borrowed for operating purposes, for example, a working capital loan.

Therefore:

i) do not include in Item 7 any interest on funds borrowed to finance a major capital expenditure (see Item 8 below);

ii) do not include in Item 7 any interest (or principal) payments relating to the capital financing of the building or project (see Item 9 below on Residential Financing Payments);

iii) do not include interest paid on tenants' deposits as income therefrom is not to be shown as revenue in Item 6.

Depreciation (See also Item 8 and Section 13)

In accordance with the guidelines on capital expenditures that are more fully explained in Item 8, the rent review officer will normally allow, as increased operating costs in Item 7, the increases in depreciation expenses on a a straight line basis between Year 1 and Year 2, where such increases specifically relate to capital expenditures for repairs, replacements, renovations and improvements made part way through Year 1. Therefore, do include in Item 7 the depreciation expenses relating to such capital expenditures made prior to Year 2.

Depreciation relating to capital expenditures for repairs, replacements, renovations and improvements made after the beginning of Year 2 will be treated in Item 8 below. Therefore do not include in Item 7 any depreciation expenses relating to new capital expenditures made in Year 2 or proposed to be made in Projected Year.

Any year-to-year increases in depreciation that arise through circumstances other than those noted above will not normally be considered. Thus, increases arising from using the sinking fund method of depreciation may not be allowed as a pass-through cost.

Any increases in the depreciation expense on the original cost of the building, equipment and land improvements or on capital expenditures for repairs, replacements, renovations and improvements made prior to Year 2, other than as specifically described above, will normally not be considered by the rent review officer.

Reserves for Repair and Replacements

As an annual provision set aside in a reserve account is not an item representing an expenditure of cash, the rent review officer should not allow any year-to-year increase in the annual provision as a pass-through cost increase in Item 7, or the inclusion of such provision in determining whether or not the landlord has sustained or will sustain a financial loss (see Section 13 below). The treatment accorded capital expenditures made after the beginning of Year 2 in Item 8 below will be used to determine the allowable pass-through cost.

Income Taxes

Income tax is not allowable as an item for cost pass-through.

Projected Costs

In reviewing the projected costs reported for the Projected Year, the rent review officer will consider the reasonableness of such costs:

i) in relation to the actual costs reported for Year 1 and Year 2;

ii) in relation to the degree of substantiation of such projected costs;

iii) in light of the information available at the time of the review, of conditions affecting the various expense categories.

The rent review officer is primarily concerned with determining the amount of the cost increases, experienced or anticipated by the landlord, for which the collection of additional rent is justified. In arriving at his determination he may consider the total actual increase in expenses from Year 1 to Year 2 and/or the total projected increase in expenses from Year 2 to the Projected Year, where total projected costs are provided, or he may consider the increase in each particular expense category separately, whether based on actual or projected data, in deriving a total cost increase.

For any item for which costs for Projected Year are provided, explanations of the projected increases may be detailed at the bottom of Item 7, or by supplementary attachment, and accompanied by appropriate supporting evidence where applicable.

Multi-Year Leases

In the case of tenancy agreements that are expiring and that were longer than one year in duration and where the landlord provides projected costs for Projected Year which can be accepted by the rent review officer as being based on reasonable grounds, the rent review officer may consider such projected costs plus an appropriate portion of the cost increase over the period from Year 1 to Year 2.

For example, assume that the rent increase for two-year tenancy agreements that are expiring is under review, and that the landlord reports Year 2 as the twelve months completed to September 30, 1976. The landlord would therefore report Year 1 as the twelve months ended September 30, 1974 and Projected Year as the twelve months ended September 30, 1977.

The rent review officer thus may compute the necessary two years' cost increase as the cost increase of Projected Year over Year 2 plus one-half of the total cost increase over the two year period from Year 1 to Year 2. This method will provide a more reliable estimate than would result from projecting costs two years in advance.

ITEM 8. Residential Capital Expenditures

Complete this item only if capital expenditures have been incurred in Year 2 or commitments made for capital expenditures in the projected year.

The rent review officer will consider residential capital expenditures in determining the justifiable rent increase. Of importance in this regard are expenditures relating to work that was completed in Year 2, or which is proposed to be completed in the Projected Year, for which write-off amounts (e.g. depreciation expense) will be considered in Year 2 and the Projected Year.

The write-off amounts for capital expenditures relating to work completed prior to the beginning of Year 2 should be included in operating costs, Item 7. Each capital expenditure listed should be able to meet certain tests of validity:

- they should be expenditures which generally accepted accounting principles require to be capitalized.
- they are required to maintain or improve the level of service(s) provided to tenants or to maintain or improve the physical integrity of the building(s) or project.

Capital expenditures claimed previously in Item 7, or claimed in Item 8 in a prior rent review, will not be considered except where the full amortization of the capital expenditure was not previously allowed.

Item 8 is divided into two sections: (a) dealing with capital expenditures relating to major repairs and replacements; (b) dealing with capital expenditures relating to major renovations and improvements.

Major Repairs and Replacements – Item 8(a)

Capital expenditures that are necessary to maintain the existing level of service(s) provided to tenants and/or to maintain the physical integrity of the structure. Such expenditures could include exterior painting, new roofing, interior painting and plastering, replaced carpeting, appliances, cupboards, window units, etc.

Major Repairs and Replacements – Item 8(b)

Capital expenditures that are made to increase the level of service(s) provided to tenants and/or to increase the value of the building or project. Such expenditures could include swimming pool, air-conditioning equipment and carpets where the benefits were not previously provided.

Where a capital expenditure can be construed to be partially repair and replacement and partially a renovation or improvement, apportion such expenditure on a reasonable basis between Items (a) and (b) and explain such apportionment (on an attachment if necessary).

In cases where a capital expenditure relates partially to residential premises and partially to commercial space, indicate at the bottom of Item 8 the method and amounts of such apportionment of the total expenditure.

The rent review officer will consider as a justifiable cost relating to a capital expenditure for a major repair and replacement, a write-off amount related to the estimated useful life of the asset purchased. For example, exterior painting may have an estimated life of 5 years, a new roof 15 or 25 years, appliances 10 years, etc. The rationale for allowing the write-offs over the useful life is to ensure that tenants who benefit bear a proportionate cost.

Where the landlord has utilized borrowed funds for major repairs and replacements in Item 8(a) the rent review officer will not normally consider, as a justifiable cost increase, any increased interest expense incurred by the landlord relating to such funds borrowed. Such interest costs should also be excluded from any expense shown in Item 7.

The rent review officer will consider as a justifiable cost relating to a capital expenditure for a major renovation and improvement in Item 8(b) both a write-off amount related to the estimated useful life of the asset purchased and interest on the amount of the expenditure. This interest amount shall reflect a reasonable rate of interest and shall be either the actual rate of interest on funds borrowed or, in the case of equity financing, a deemed interest rate (which will be calculated by the rent review officer) equivalent to the conventional prime first mortgage interest rate prevailing at the time the work was completed.

Thus in Item 8(b) it is important for the landlord to indicate the method of financing that he has utilized in undertaking the capital expenditure for a major renovation and improvement.

Where the landlord has utilized borrowed funds for major renovations and improvements, the interest rate and amount of interest paid, or to be paid, will be disclosed in Item 9 Residential Financing Payments.

Where the landlord indicates in Item 8(b) that he has utilized his own funds, the rent review officer will calculate the amount of deemed interest based on:

i) the amount of the expenditure so financed and

ii) the appropriate prime first mortgage interest rate.

Where the landlord has utilized both his own funds and borrowed funds to finance a major renovation or improvement, the rent review officer will normally allow both the deemed interest on the landlord's own funds and the actual interest on the borrowed funds in proportion to the application of the funds to the capital expenditure.

ITEM 9. Residential Financing Payments

Item 9 must be completed if there has been a change in financing in Year 2, or if financing will change in the Projected Year. If a financial loss is to be considered, full details of financing are required.

The rent review officer will consider increases in interest payments and principal repayments resulting from financial obligations incurred by the landlord in the operation of the building or project providing that such obligations are at arm's length.

The rent review officer will analyze any actual increases in such payments and repayments between Year 1 and Year 2 and any anticipated increases between Year 2 and Projected Year, and the reasons for incurring any new financial obligations on or after the beginning of Year 1. From his analysis, the rent review officer will determine the amount of the justifiably increased expense to pass through to a rent increase.

The rent review officer may also consider all or part of the residential financing payments in relation to the increase in rent necessary in order to prevent the landlord from sustaining a financial loss in the operation of the building or project.

Note that Item 9 requests only information relating to residential financing payments. If the total financing payments must be apportioned between commercial and residential premises, append a note explaining the method of such apportionment, and include in Item 9 only the amounts of payments relating to the residential premises. The amount relating to the commercial facilities may be included in the explanatory note.

Discussed below are a number of changes in financial arrangements on a building or project which the rent review officer will consider in arriving at his determination of the justifiable rent increase.

i) Increased payments resulting from a renegotiated interest rate on borrowed funds will be considered as a justifiably increased expense. In the case of a mortgage requiring blended payments of principal and interest it is not necessary to break out the principal and interest portions of the payments; simply indicate the totals that are requested in each section of Item 9.

   However, any increased payments resulting wholly or in part from shortening the previous amortization period will not be allowed by the rent review officer as a justifiably increased expense.

ii) The interest payments and principal repayments resulting from the refinancing of a building or project pursuant to an agreement of purchase and sale where vendor and purchaser are dealing at arm's length, will be considered as an expense only for the purpose of determining whether the landlord has sustained or may sustain a financial loss (see Section 13). In addition, the rent review officer will consider in such cases, whether the amortization period on the new financing is shorter than on the financing replaced. If it is shorter, the rent review officer may not allow the full amount of the increased financing payments as an expense for determining the financial loss.

iii) Increased interest payments and principal repayments arising from any refinancing of an existing building or buildings in a project by the nominal or beneficial owner will be considered by the rent review officer as a justifiably increased expense in light of the deployment of any additional funds generated.

   By way of illustration, if the additional funds are reinvested in the existing building or buildings in a project, for example for a capital expenditure, the rent review officer will, in some circumstances, consider the interest payments as a justifiably increased expense (see Item 8 above).

   If the additional funds are not reinvested in the existing building or buildings in a project, the rent review officer will not normally allow the increased payments as justifiably increased expenses since it will be considered that such funds are earning a return on investment elsewhere.

   If, however, the refinancing arrangements result in an increased principal amount outstanding, but no increase in the total amount of the payments, for example, where the interest rate on the mortgage is renegotiated at a lower rate and the loan principal is increased, the rent review officer will normally consider that there is no justifiably increased or decreased expense.

iv) The rent review officer will normally disallow a large increase in principal repayments in any one year – e.g., balloon-type mortgage. In such a case, complete financial details will be required so that the officer may recalculate the mortgage using a normal amortization period."

v) Where financing payments cease through final discharge of a mortgage, the rent review officer will not normally consider such a decrease as a jusifiably decreased expense leading to a rent reduction.

Where increased financing payments are considered to be justifiable, it is important that they be reported in Item 9 in a consistent and reasonable manner. If an increase occurs in the middle of an annual accounting period, the total reported for that period must, therefore, reflect the former (lower) interest and principal payments that applied, as well as the payments made under the new agreement for the remainder of the accounting period.

For example, assume the Year 1 and Year 2 accounting periods are calendar years, 1976 and 1977 respectively, and that on April 1, of Projected Year 1978 the interest rate will increase so that annual principal and interest payments will increase from $100,000 to $160,000. The Projected Year 1978 total interest and principal payments reported on Item 9 should then be $145,000, that is 3/12 ($100,000) for the first three months plus 9/12 ($160,000) for the remaining nine months. Any units that come up for a rent review during Projected Year will then be judged on the basis of this figure whether or not the tenancy agreements expire before the change becomes effective and the new payments are being made.

If the change in financing payments is projected (i.e. the date of change has not yet passed at the time of rent review) the change must be detailed as to the expected financial arrangement.

The information requested for Item 9 has been primarily designed to disclose mortgage arrangements. In the case of a building or project under lease from a lessor-owner, or where non-mortgage financing can be attributable to the building or project (such as corporate debenture financing) include as much equivalent information as is requested for mortgage financing. Change the headings where necessary or appropriate.

Where the landlord has purchased property after January 1, 1975, the acquisition date and the purchase price are required.

A separate section of Item 9 must be completed for each type of financing arrangement utilized in Year 1 and Year 2 and expected to be utilized in Projected Year.

Type of security given is taken to mean the security that was given to a lender to secure the lender's investment, for example, a first mortgage. In the case of a lease, indicate the asset that is leased, the type and term (e.g. 35-year net ground lease etc.).

Inception date is taken to mean the date on which the normal amortization payments commenced on the particular mortgage, or the date at which lease payments commenced or began to accrue.

Principal amount at inception date is taken to mean the total liability that was assumed by the borrower at the inception date defined above. It is not applicable to leases.

Method of repayment. If the payments are not blended as to principal and interest, indicate the method of repayment.

Frequency of payments. Check the applicable box if the payment is monthly or quarterly. If payment is not made monthly or quarterly, give the details.

Term expiry date is taken to mean the date on which the mortgage loan becomes due and payable, or on which a lease terminates.

Original amortization period is taken to mean the amortization period of the mortgage from inception date. Not applicable for leases.

Reasons for financing on or after beginning of Year 1. If the financing arrangement was entered into after the beginning of the reported accounting Year 1, state the reason (e.g. to secure equity for investment in another building or project; pursuant to an agreement purchase and sale; etc.).

Effective date of change in interest rate only is taken to mean the date at which a mortgage came due at the end of its term and the lender agreed to renew for a further term at a new rate of interest, higher or lower as the case may be.

Current rate of interest is the interest rate in respect of current payments.

Previous rate of interest is the interest rate in respect of payments prior to the effective date of change in interest rate defined above.

SECTION 10. Schedule A: Analysis of Services Provided

In the guide the term "service" will be used in place of the longer form "service, privilege, accommodation or thing" as contained in the Act.

A separate Analysis of Services Provided (Schedule A) must be completed for each group of units under review, the tenants of which benefit from the same combination of services. If the units under review benefit from exactly the same services only one Schedule A is required. Each group identified should be numbered consecutively in the box in the upper right hand corner of Schedule A.

If more than one Schedule A is completed, list on the reverse side of each schedule the numbers of those units (subject to rent review) which benefit from exactly the same group of services. Example: health club fees may be included in the rent in some units in a building but may not be included in the rent of other units. In this case two Schedules A are required.

In the top half of Schedule A is a list of services. Following the service description column there are three columns: the first headed "status change"; the second headed "charged separately"; and the third "included in rent".

Place a check mark in the "status change" column opposite the relevant service, whenever one or more of the following have occurred commencing after the start of Year 1, or are expected to occur in the Project Year:

- a discontinuation of a service; or
- an introduction of a service, or
- a change in the manner of charging for a service from "included in unit basic rent" to "separate charge", and vice versa.

Place a check mark in the "charged separately" column opposite the relevant service whenever the service has been provided and charged separately throughout Year 1 and Year 2 and will be provided and charged separately through Projected Year.

Place a check mark in the "included in rent" column opposite the relevant service whenever the service has been provided throughout Year 1 and Year 2 and included in the rent and will be provided throughout Projected Year, without any separate charge over and above unit basic rent.

If any service charge is related to an escalator clause in the tenancy agreement, identify the service on this schedule. Place a check mark in the "charged separately" column and also indicate the amount of the revenue in Item 6 line (f).

Services provided, but not separately listed, may be entered on Schedule A, line 31 and the following lines.

If the building or project has a self-contained recreation centre, containing a number of services (e.g. pool, squash courts, health rooms, etc.) this fact should be entered on line 31 and information should be provided regarding the facilities contained. In such cases, it is not necessary to check off such facilities separately where these are listed on other lines of Schedule A.

In the bottom half of Schedule A, certain information is required for those services for which a separate charge is made in addition to unit basic rent or where there has been a status change, as indicated in the top half of Schedule A.

For services included in the bottom half of Schedule A, identify the service number in column (a) as indicated in the top half of Schedule A.

In columns (b), (c) and (d) respectively indicate the charge for the service for the month of July 1976, the month prior to the proposed increase (base month) and the proposed monthly charge.

The monthly charge per unit of service may refer to one or more of the following methods of charging for a service:

- per dwelling unit making use of service (e.g. individual unit air conditioning);
- per unit of service used (e.g. parking charge per space used);

- per person using service (e.g. charge for use of recreational facilities per household member joining recreation club).

As long as the method of charging for the service has remained consistent throughout Year 1 and Year 2 and will remain the same during the Projected Year, it will not be necessary to explain the method used in charging for the service. If there is a change in the method used in charging for the service, an explanation outlining the change should be provided on an attachment.

Total operating costs in columns (g), (h) and (i), should include all the normal residential costs of operating the service, but should exclude costs (such as depreciation charges) relating to capital expenditures made in Year 2 or in Projected Year (see Items 7 and 8) and should exclude all financing payments expended in Year 1, Year 2 or Projected Year (see Items 7 and 9). The total of the operating costs of all separately charged services only, is to be computed for columns (g), (h), (i).

If these costs cannot be accurately segregated from Item 7 residential operating costs, then it should be so indicated in columns (g) (h) and (i) that expenses are included in the residential operating costs reported.

Status change in column (j) should indicate the type of status change involved – i.e. "introduction", "elimination", "reduction", or the change in method of charging for the service:

- if changed from no charge to charge, show "charge".
- if changed from charge to no charge, show "no charge".
- if escalation base is changed, show "change in escalation".

Status Change Date – indicate in column (k) the date(s) of introduction and/or withdrawal of the related service if such event(s) occurred after the beginning of Year 1. In addition declare the date when a separate charge for the service was instituted or removed. Explanations should be given in the space at the bottom of the schedule or append an attachment.

Column (l) should include the total of revenues received from all tenants (and non-tenants where applicable) for the service. The total of all revenues from separately charged services only is to be computed.

Explain at the bottom of Schedule A or on an attachment, whether any service that is listed is available to persons other than just the tenants (i.e. members of the general public).

SECTION 11. Rental History Particulars

A Rental History Form has been prepared to assist the landlord to provide the basic rental history data required under the legislation. If any additional information is required, it will be requested in writing by the rent review officer.

Since the information on the Rental History Form includes that formerly requested on Schedule B, the Schedule B is no longer required.

If a Rental History Form has been previously completed the landlord need only provide information updated as of the date of the last Rental History Form unless otherwise requested by the rent review officer.

The Rental History Form enables the rent review officer to verify the rent revenue and to determine if he should direct a landlord to file additional applications.

SECTION 12. Determination of Unit Basic Rent Increase

The basis for increasing rents has previously been described as the "cost pass-through" method, whereby the increase in operating costs, actual and/or anticipated, is translated into a percentage increase in unit basic rents.

In rendering his decision as to the allowable rent increase, the rent review officer will consider:

- the amount of the increase in operating costs experienced and/or anticipated (Item 7);
- the amount of the annual write-off of capital expenditures related to work completed after the beginning of Year 2 (Item 8 (a) and (b));
- the amount of interest deemed to be paid on equity financing of capital expenditures for major renovations and improvements completed after the beginning of Year 2 (Item 8 (b));
- the amount of the increase in financing payments, experienced and/or anticipated, including the interest payments only on any funds borrowed for capital expenditures for major renovations and improvements completed after the beginning of Year 2 (Item 9).

It is worth noting that the costs allowed by the rent review officer will not necessarily be the same as those claimed by the landlord.

The analysis that the rent review officer will undertake will thus be as follows:

	Allowable Increases experienced and/or anticipated
a) Operating costs (Item 7)	$
b) Less: operating costs of services for which a charge is levied in addition to unit basic rent (Schedule A)	$______
Add:	
c) Annual write-off of capital expenditures (Item 8)	$
d) Deemed interest on capital expenditures (for major renovations and improvements only) financed by equity funds (Item 8, Section (b))	$
e) Financing payments (Item 9)	$
f) Margin adjustment (see below)	$
g) Amount of financial loss, if applicable.	$______
h) Total increase	$______

Calculate the total increase, line (h) as a percentage of total net unit basic rent revenue (Item 6).

$$\frac{\text{Total Increase}}{\text{Total net unit basic rent revenue}} \times 100 = \_\_\_\_\_\_\_\_ \%$$

This percentage represents the unit basic rent increase justified on the basis of the allowable increased costs and/or the need to eliminate financial loss. In addition, in determining the amount of rent increase, the rent review officer will consider any changes in the level of services provided in unit basic rent (see Section 15, below), and may consider such other matters as he deems appropriate.

Schedule C Margin Adjustment Calculation

The rent review officer as part of his margin adjustment calculation will consider the amounts by which the actual costs experienced during the control period have exceeded or fallen short of the projected costs which were accepted by a rent review officer when awarding the previous increase.

In addition the rent review officer may make a revenue adjustment on the basis of information provided by Schedule C.

Schedule C is to be completed for units where, because of circumstances beyond the landlord's control, the rent collected was less than the maximum rent allowed in a rent review order for the prior fiscal period.

SECTION 13. Analysis of Financial Loss

Section 7 (2) of the Act sets out that the rent review officer shall consider whether or not the increase in rent sought by the landlord is necessary in order to prevent the landlord sustaining a financial loss in the operation of the building in which the units are situated.

In cases where a landlord determines that he has sustained or may sustain a financial loss in the operation of his building or project, the rent review officer will consider a statement of financial loss submitted by the landlord.

In considering such a statement the rent review officer will determine the percentage increase in rent necessary to eliminate any such financial loss. Such a determination will include consideration of:

- the total actual amount of Operating Costs in Year 2, less depreciation. (Item 7).
- the amount of Principal and Interest Payments, (Item 9) relating to the financial arrangements covering the building, project or mobile home site, according to the criteria set out in Item 9 above. The amount shown should include the interest amount only on funds borrowed for capital expenditures for major renovations and improvements completed in Year 2 (Items 8(b) and 9).

As a point of departure for the consideration of the landlord's claim of financial loss, the rent review officer will consider the computation outlined below. In addition to this information, the rent review officer may also consider such other information as he may deem appropriate to the application under review.

As noted in the case of the unit basic rent calculation it is worth noting that the costs allowed by the rent review officer will not necessarily be the same as those claimed by the landlord.

			Year 2 Actual
a)	Total net unit basic rent revenue (Item 6, line (d))	$_____	
b)	Parking revenue (Item 6, line (e))	$_____	
c)	Sundry service revenue (Item 6, line (f))	$_____	
d)	Total revenue		$_____
	Less:		
e)	Total operating costs less depreciation (Item 7)	$_____	
f)	Principal and interest payments (Item 9)	$_____	
g)	Total expenses		$_____
h)	Net financial profit (loss)		$_____

If a loss is showing on line (h) the rent review officer may include the amount on line (g) in the rent increase determination formula (Section 12).

The rent review officer may spread a substantial loss over a number of years and may include only a part of the loss on line (g) of Section 12.

SECTION 14. Determination of Increases in Separate Charges for Services

Under the Act, separate charges for services fall within the scope of rent review. The basis for determining the increase in such service charges is to be a "cost pass-through" method similar to that used for unit basic rent.

The service charge increase will be computed separately for each service for which a separate charge is made, providing the cost can be reasonably segregated.

In computing the service charge increase, the rent review officer will consider the amount of increase in the operating costs for that service which has been experienced and/or anticipated (Section 10 re Schedule A).

The rent review officer will then calculate for each service the increase in operating costs as a percentage of total revenue from the service in Year 2, found in column (l) of Schedule A:

$$\frac{\text{Increase in operating costs}}{\text{Total revenue for service}} \times 100 = \_\_\_\_\_\_\_\_\%$$

This percentage represents the increase in service charge justified on the basis of increased costs.

In determining the permissible amount of increase in the charge for a particular service, the rent review officer will consider any change in the level of service provided (see Section 15 below) and may consider such other matters as he deems appropriate.

If the operating costs for separately charged services cannot be accurately segregated, and are included in Item 7 residential operating costs, then the justifiable increase for these services may be the same as determined under the unit basic rent increase calculation. (Sec. 12).

The rent review officer will not normally make any allocation of cost increases, related to capital expenditures and financing payments, to the services whose costs are identified in the bottom half of Schedule A, unless, by not so doing the effect would be a significantly unfair treatment of tenants that do not utilize the service.

SECTION 15. Rent Adjustment for Change in Services

Case #1 – Discontinuance of a Service Included in Unit Basic Rent

According to Section 9 of the Act, any discontinuance of a service, privilege, accommodation or thing which reduces the tenant's use and enjoyment of the residential premises is considered to be a rent increase equal to the value of the discontinued service, privilege, accommodation or thing. Should such a discontinuance occur the tenants may, at any time, make an application on Form 5A, and should clearly indicate that it is made under Section 11(a) of the Act. A hearing will be scheduled to consider such an application.

Discontinuance of a service can also be dealt with at a hearing scheduled to consider a rent review application.

Case #2 – Improvement in Existing Service
At the time of the landlord's next application for rent review the cost increase pertaining to the service will be included in the appropriate column of Schedule A, where separately charged, and in Item 7, where the service is included in rent. In this way, the amount of cost increase may be recovered.

Case #3 – Introduction of New Service Included in Rent
The cost of any such new service may be recovered at the time of the landlord's next Application for Rent Review in that the cost pertaining to such a service will be included in Item 7.

Case #4 – Introduction of New Service Separately-Charged
The landlord may set any value on a new, separately-charged service. It should be noted, however, that this rule will apply only where acceptance of the new service is entirely voluntary. Further, the new service must not be merely a replacement for another service previously discontinued. If the new service is merely a replacement it will be treated as an improvement as per Case #2, above.

Case #5 – Change in Service from Included-in-Rent to Separately-Charged
In the first year of the change in service, the unit basic rent must be reduced by the amount of the separate charge. In this way, the total charged for both the unit basic rent and the service will be the same on any unit whether the service is included in rent or separately charged.

In future years, increases are to be calculated from the base established in the first year of the changeover for both the unit basic rent and the separately-charged service.

Office Locations

If you live outside the toll-free dialing area for the office serving your municipality, dial the operator and ask for Zenith 9-6000. You will be connected with the rent review office free of charge.

Landlords and tenants wishing information, forms or assistance in connection with the Residential Premises Rent Review Act may call or visit their local rent review office listed below.

OFFICE AND AREA SERVED METRO TORONTO	OFFICE LOCATION	MAILING ADDRESS (for all correspondence including completed forms)
City of Toronto	77 Bloor St. W. Tel. 964-8281	Ontario Rent Review 77 Bloor St. W., 2nd Fl. Toronto M5S 1M2
Etobicoke	56 Aberfoyle Cres. Tel. 236-2681	Ontario Rent Review 56 Aberfoyle Cres., 4th Fl. Etobicoke M8X 2W4
East York	1880 O'Connor Dr. Tel. 752-0683	Ontario Rent Review 1880 O'Connor Dr., 2nd Fl. Toronto M4A 1W9
North York	45 Sheppard Ave. E. Tel. 226-6303	Ontario Rent Review 45 Sheppard Ave. E., 5th Fl. Willowdale M2N 2Z8
Scarborough	2100 Ellesmere Rd. Tel. 438-3452	Ontario Rent Review 2100 Ellesmere Rd. E., 3rd Fl. Scarborough M1H 3B7
York	702 Weston Rd. Tel. 762-7545	Ontario Rent Review 702 Weston Rd., 2nd Fl. Toronto M6N 3R2
CENTRAL-EAST		
Barrie, for the County of Simcoe and the District Municipality of Muskoka	110 Dunlop St. E. Tel. 737-2111	Ontario Rent Review Box 985 Barrie L4M 5E1
Mississauga, for the Regional Municipality of Peel, South of the 401	1310 Dundas St. E. Tel. 270-3280	Ontario Rent Review 1310 Dundas St. E., 2nd Fl. Mississauga L4Y 2C1
Brampton, for the Regional Municipality of Peel, North of the 401	85 Kennedy Rd. S. Tel. 453-7372	Ontario Rent Review Room 1, 2nd Fl. 85 Kennedy Rd. S. Brampton L6W 3G1
Oshawa, for the Regional Municipality of Durham	74 Simcoe St. S. Tel. 579-4421	Ontario Rent Review 74 Simcoe St. S., 2nd Fl. Oshawa L1H 4G6
Peterborough, for the Counties of Peterborough, Northumberland, Victoria and Haliburton	340 George St. N. Tel. 743-9511	Ontario Rent Review 340 George St. N., 2nd Fl. Peterborough K9H 7E8
Richmond Hill, for the Regional Municipality of York	10255 Yonge St. Tel. 884-6092	Ontario Rent Review 10255 Yonge St., 2nd Fl. Richmond Hill L4C 3B2
CENTRAL-WEST		
Hamilton, for the Regional Municipalities of Hamilton-Wentworth, Halton, Haldimand-Norfolk, and the County of Brant	Penthouse 55 Hess St. S. Tel. 528-8701	Ontario Rent Review Box 2006 Hamilton L8N 3R5

OFFICE AND AREA SERVED	OFFICE LOCATION	MAILING ADDRESS (for all correspondence including completed forms)
CENTRAL-WEST (Continued)		
Kitchener, for the Regional Municipality of Waterloo and the Counties of Wellington and Dufferin	30 Duke St. W. Tel. 579-5790	Ontario Rent Review 30 Duke St. W., 4th Fl. Kitchener N2H 3W5
St. Catharines, for the Regional Municipality of Niagara	80 King St. Tel. 684-6562	Ontario Rent Review 80 King St., 4th Fl. St. Catharines L2R 7G1
NORTHEASTERN		
North Bay, for the Districts of Nipissing and Parry Sound	215 Oak St. E. Tel. 476-1231	Ontario Rent Review 215 Oak St. E. North Bay P1B 8P8
Sault Ste. Marie, for the District of Algoma	421 Bay St. Tel. 942-1123	Ontario Rent Review Box 627 Sault Ste. Marie P6A 5N2
Sudbury, for the Regional Municipality of Sudbury and Districts of Sudbury and Manitoulin	45 Elm St. E. Tel. 673-7173	Ontario Rent Review Box 1059 Sudbury P3E 4S6
Timmins, for the Districts of Cochrane and Timiskaming	273 3rd Ave. Tel. 264-9555	Ontario Rent Review Box 1130 Timmins P4N 7H9
NORTHWESTERN		
Kenora, for the Districts of Kenora and Rainy River	37 Main St. S. Tel. 468-3159	Ontario Rent Review 37 Main St. S., 2nd Fl. Kenora P9N 1S8
Thunder Bay, for the District of Thunder Bay	435 James St. S. Tel. 475-1595	Ontario Rent Review Box 5000 Postal Station F Thunder Bay P7C 5G6
SOUTHWESTERN		
London, for the Counties of Middlesex, Oxford, Elgin, Lambton, Perth and Huron	80 Dundas St. Tel. 673-1660	Ontario Rent Review 80 Dundas St. W. London N6A 2P3
Owen Sound, for the Counties of Grey and Bruce	896 3rd Ave. E. Tel. 376-3202	Ontario Rent Review 896 Third Ave. E., 2nd Fl. Owen Sound N4K 2K5
Windsor, for the Counties of Essex and Kent	251 Goyeau St. Tel. 253-3532	Ontario Rent Review Box 189 Windsor N9A 6V6
EASTERN		
Belleville, for the Counties of Hastings and Prince Edward	210 Dundas St. E. Tel. 966-4451	Ontario Rent Review Suite 204 210 Dundas St. E. Belleville K8N 5G8
Cornwall, for the Counties of Stormont, Dundas & Glengarry, and Prescott & Russell	4 Montreal Rd. Tel. 933-8662	Ontario Rent Review Box 607 Cornwall K6H 6G2
Kingston, for the Counties of Frontenac, Lennox & Addington, Leeds & Grenville, and that portion of Lanark County lying *west* of Highway 29, *excluding* the towns of Carleton Place (see Ottawa) and Smiths Falls (see Ottawa).	74 Brock St. Tel. 549-4426	Ontario Rent Review 74 Brock St., 2nd Fl. Kingston K7L 1R9
Ottawa, for the Regional Municipality of Ottawa-Carleton *plus* that portion of Lanark County lying *east* of Highway 29, *including* the towns of Carleton Place and Smiths Falls	265 Carling Ave. Tel. 238-5055	Ontario Rent Review Box 9800 Ottawa K1G 3Y2
Pembroke, for the County of Renfrew	169 William St. Tel. 735-0135	Ontario Rent Review 169 William St. Pembroke K8A 1N7